RESIDENTIAL TENANCIES: LOSSES, FAIRNESS AND REGULATIONS

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INTRODUCTION

Rental housing transactions are often considered to be different from those involving other goods and services and therefore to need special rules in order to ensure that all interests are protected in an equitable manner.

In part, the distinctions made between rental housing and other goods and services may stem from a general feeling that sitting tenants should be on more than an equal footing with prospective tenants, that landlords are in a better bargaining position than tenants, and that there are differences caused by the relatively long term of tenancy relationships. In other exchanges buyers compare the quality of goods or services and the terms offered by various sellers and make their choices accordingly. They may continue to deal with a particular seller as long as the arrangements remain satisfactory; if this ceases to be true, buyers can usually change their spending behaviour with little cost. For example, if the price of some commodity increases, buyers usually shop at another store or buy a less expensive substitute. Such relatively easy adjustments to changing market or non-market conditions are usually possible, even for necessities such as food.

This report is a result of the collaboration of all three authors. The first listed provided a measure of coordination and had responsibility for the introduction and the second section. The second and third listed had responsibility for the third and fourth sections respectively.

The rental housing market, however, may offer the buyer neither as much opportunity to choose nor as much ease of adjustment. Although many different prices and forms of rental accommodation are offered in most communities, the range is sometimes limited and landlords may be unwilling to rent to some groups of tenants, such as families with children. Consequently, the possibilities for substitution are far more limited than for most other goods. Moreover, even if other and cheaper accommodation is available in other communities or cities, employment, family and other responsibilities often make it impractical for tenants to take advantage of those opportunities. This may be especially true for sitting tenants. Once a household is living in a rented house or apartment, it may be even more difficult for it to move if the rent is raised. In addition to the direct costs, people may bear non-pecuniary losses when forced to move by circumstances not of their choosing. Attachments to a present home and neighbourhood and proximity to friends, shops, and recreation facilities are not usually given up without a loss of personal well-being.

In part for reasons such as these, fairness as well as efficiency in the provision of rental housing has become important. Many people believe that current tenants should have more rights than other households willing to pay equal rents and that some reasons for raising rents or for terminating tenancies are more acceptable than others.

The demands for special treatment, however, are no doubt also motivated by the special interests of some

individuals or groups pleading for an advantage over others. Clearly many restrictions or regulations will serve some interests better than they do others, and some will serve a narrower interest only at considerable expense to the wider community.

In order to decide what kind of intervention in the provision of rental housing is likely to best meet the short- and long-run efficiency and equity goals of the community, it is necessary to balance the gains and losses. On one hand, tenants will benefit from restrictions on the grounds for ending tenancies or raising rents. The expense and disruption of having to move will be reduced, and tenants will run less risk of being evicted in the future. On the other hand, such restrictions will result in losses, not only to landlords, but to the community as a whole in the form of costly restrictions on the supply of housing.

The purpose here is to attempt to sort out some of these issues and to present some preliminary empirical evidence that may be of help both in interpreting the claims of inefficiency and inequity that have been made in support of changes in rent regulations and in judging the desirability of various proposals for dealing with possible inefficiency and inequity.

Most of what follows is concerned with feelings about fairness when tenants are asked either to pay more rent or to vacate their rental premises, and with the losses that tenants experience in such situations. The discussion is not intended to treat the issues exhaustively nor to include

all the problems. It is, instead, a preliminary inquiry. No attempt is made to assess the increased social costs that result from government intervention in the provision of housing -- such assessments are left to others.

The next section will deal with losses that may be borne by tenants when they are required to give up possession of their present homes, to which they may have formed special attachments. The section will outline the nature of the losses and will present some illustrative responses from a survey of tenants to show whether or not the problem might be of sufficient consequence to warrant community concern.

The third section will examine various perceptions of fairness and will present evidence on the extent to which a sample of home-owners and renters judged the fairness of various reasons for rent increases and for non-renewal of leases.

The fourth section will examine a few typical regulations that are used to meet demands for intervention in the rental housing market and will compare the extent to which those rules seem consistent or inconsistent with the evidence presented in the earlier sections.

The final section is a short summary of some of the conclusions.

SECURITY OF TENURE AND LOSSES

Security of tenure is a continuing matter of concern in housing policy. Regulations to limit the grounds on which tenants can be evicted or leases not renewed benefit tenants by making them more certain of continued tenancy. Such rules, however, usually add to the cost of providing rental housing. The degree to which regulations increasing security of tenure may be justified depends, in large part, on how well such regulations coincide with the public's ideas of fairness and on whether a reasonable balancing of the costs they impose and the benefits they confer has been achieved. This section looks at the losses to tenants that restrictions on evictions and non-renewals are intended to mitigate.

Although many members of the public may gain or lose from what they view as more equitable or less equitable tenure regulations, the principal beneficiaries of such regulations are likely to be tenants, who will be spared the losses that they would otherwise experience by having to move involuntarily. In addition to incurring expenses, tenants may also suffer psychological losses when they are forced to move as a result of eviction, non-renewal of a lease, or a prohibitive increase in rents (Honoré, 1982). These losses will likely vary depending on tenants' attachment to their present homes and their expectations of finding acceptable substitutes.

The extent to which a tenant considers alternative accommodation to be a good substitute for his or her present house or apartment no doubt varies with the individual. While some may be nearly indifferent, others may consider their present home to be unique, and this feeling will likely increase the loss in welfare if they are forced to move. The location, size, configuration, and appearance of rental accommodation may vary a great deal. Even when accommodations are priced identically, a householder may prefer one over another -- because of the location, the view, or the arrangement of space. In the case of the accommodation an individual presently occupies, there may be an even greater preference for that premise over others. As the current occupants have previously chosen their particular rental unit from among all that were available, they presumably made their choice on the basis of some special attraction. Furthermore, the particular attachment and value placed on the current holding may have grown as they became familiar with the accommodation and the neighbourhood and made friends nearby. On the other hand, tenants might feel less attached to their current dwelling if their circumstances changed -- for example, if they were offered an attractive job in another city or district, or if their children left home.

Measure of Welfare Loss

The economic value of the non-pecuniary, psychological losses will not only depend on the individual's tastes in

housing but will probably also vary with the measure that is used for the evaluation (Knetsch, 1983).

It is generally agreed that the appropriate economic measure of the losses that regulations leading to greater security of tenure are intended to reduce, is the minimum sum of money that would fully compensate tenants for their sacrifice (see, for example, Mishan, 1982, chapter 58). The compensation demanded is an economic measure of the loss in welfare, or economic well-being; using this measure need not, and usually does not, imply that these losses are, or ought to be, compensable. The issue of whether compensation ought to be paid or even considered is entirely another matter.

In practice, it is commonly assumed that the maximum sum that people would be willing to pay to avoid or to mitigate a loss -- an amount that is often easier to measure -- can be substituted for the more appropriate compensation measure. For example, if a tenant were faced with the prospect of having to move, the loss has generally been taken to be the amount the tenant would pay to avoid the move (for example, Hirsch, 1979, p. 60). Or the monetary value of the inconvenience resulting from a loss of services in a building would be the sum that tenants would pay to retain those services.

The justification for using the willingness-to-pay measure is the common presumption that the two bases for evaluating a loss will yield nearly equivalent measurements -- they are expected to vary by only a small and usually

insignificant amount, due to possible differences in demands resulting from small changes in income (the so-called income or wealth effect). The standard advice is that "... in most applications the error of approximation will be very small ..." (Willig, 1976, p. 489); and "... practically speaking, it does not appear to make much difference which definition is accepted" (Freeman, 1979, p. 3).

Although the two measures are commonly used interchangeably as the basis for assessing losses and for designing government policies, the usual assertions of equivalence between the measures do not appear to be supported by empirical evidence. Instead, available data -- collected from a wide variety of recent studies by many investigators using various methods -- suggest that the compensation measure of losses will generally far exceed the payment measure.

The disparity between the measures of change in economic well-being was first noted in studies of the effects of environmental losses (see, for example, Rowe, et al., 1980). People consistently indicated that they would demand far more compensation to give up natural amenities than they would pay to keep them. Since then, results showing disparities between the measures have become common. Further, the results from the numerous surveys have now been supported by consistent findings from a variety of experiments and exercises involving real exchanges of money and actual entitlements (Knetsch and Sinden, 1984; Bishop, et al., 1984). These studies, too, have shown a large and

significant disparity between the two bases for evaluating the impact of change on economic welfare. The willingness-to-pay measure invariably understates the value of losses and commonly does so by a factor of about three to ten.

The apparently larger value ascribed to losses than to gains is closely related to the common observations that people evaluate gains and losses from some neutral reference point rather than as final outcomes and that losses from that reference level are more important than positive changes (Kahneman and Tversky, 1979 and 1984). A person with a total wealth of $1,000 compares a gain or a loss of $10 by comparing the increase or decrease in welfare resulting from having $10 more or $10 less, and not by comparing a wealth of $990 with a wealth of $1,010. In other words, losses generally loom much larger than corresponding gains.

The main implications of the disparities in people's evaluations of changes that affect their welfare are that losses seem generally to be taken far more seriously than gains (see Thaler, 1980) and that assessments based on people's willingness to pay are very likely to underestimate the losses. An involuntary change is therefore likely to affect an individual's well-being more adversely and more severely than would be suggested by what people pay to prevent such changes.

Some Empirical Evidence

In principle, the loss in economic welfare that tenants would experience if circumstances called for them to give up

their current residences involuntarily would be the smallest amount of compensation the tenants would accept in exchange for moving willingly. There are, of course, problems in making such assessments, but it may be possible to obtain at least some rough indications of amounts that would be useful for some purposes.

Some assessments of the losses that tenants say they would incur if asked to move were made from the data obtained in a recent household survey conducted by telephone in the summer of 1984. The results are at best preliminary, but they may be useful for illustrating the procedure and possibly for suggesting whether or not the losses might be large enough to be given any weight in efforts to compare the gains and losses of different levels or forms of intervention in the market for rental housing.

Standard sampling techniques were employed to draw a random selection of households from the Toronto metropolitan area, and the interviews were carried out under the direct supervision of a commercial survey firm.[1] All calls were made in the early evening, and equal numbers of male and female heads of households were interviewed. The basic survey and the questions were designed primarily for another purpose, having mainly to do with methods of assessing non-

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1. A random selection of residential telephone numbers was made from the directories. The proportion of respondents who did not wish to begin the interview was 59 per cent; once the interviews started, fewer than one per cent did not continue to completion.

pecuniary values and the importance of fairness considerations.[2] However, the example of rental housing used in the survey provided useful data for the present purpose.

Although the total sample was much larger, 683 respondents identified as renters were asked a series of questions that included ones on their residential tenancies. After each renter had been asked about the type of accommodation they lived in, how long they had lived there and the amount of rent paid, they were then asked the following question:

> Assuming that your moving costs are covered, and that there is [is no] comparable rental housing available in your neighbourhood, would you agree to move if you were paid $X?

The sample was divided into ten roughly equal parts, and one of the ten variations of the question was used with each respondent. The amount of the compensation offer, the $X, was either $1,000, $3,000, $5,000, $7,000 or $10,000; that is, roughly one-fifth of the sample was asked if they would move when offered one of these sums. In the description of the circumstances, one-half of each of these five groups were told that other comparable rental housing was available in their neighbourhood; the other half were told that it was

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2. Further reports on the results are planned for future publication.

TABLE 1

Percentage of Renters Who Would Refuse to Move from Their Present Accommodation if Offered Compensation Over and Above Moving Costs

Other Comparable Rental Housing in Neighbourhood	Compensation Offer				
	$1,000	$3,000	$5,000	$7,000	$10,000
Available	42 (N=69)	50 (N=65)	32 (N=56)	24 (N=66)	18 (N=66)
Not available	56 (N=77)	47 (N=74)	40 (N=73)	34 (N=77)	20 (N=70)

not. Each respondent was asked only one of the ten variations of the question.

Although the question could have asked more directly for the minimum sum tenants would require in return for agreeing to a move, experience with this type of question suggested that this would not be a feasible approach. While also likely to be subject to an anchoring bias, the closed ended method used, where respondents are asked only for a yes or no to a specific option, is far less demanding than asking the respondent to name a specific compensation level.

The proportions of the respondents who answered that they would not agree to move if offered the varying amounts of compensation are given in Table 1 (N indicates the number of respondents asked each particular question). As expected, the number of people who would turn down the offer decreases as the size of the payment becomes larger.

The proportion saying that they would refuse the offers is fairly substantial, even at the higher rates. A further

TABLE 2

Percentage of Renters Who Would Not Move, by Compensation Offer and Length of Residence in Accommodation

Number of Years' Tenure	Compensation Offer					
	$1,000	$3,000	$5,000	$7,000	$10,000	All Offers
Similar Housing Available in Neighbourhood						
< 2	32 (N=31)	40 (N=20)	19 (N=21)	16 (N=37)	13 (N=23)	25 (N=122)
2 to 5	47 (N=19)	62 (N=26)	33 (N=21)	35 (N=17)	16 (N=19)	40 (N=102)
> 5	53 (N=19)	45 (N=20)	50 (N=14)	18 (N=22)	25 (N=24)	36 (N=99)
Similar Housing Not Available						
< 2	49 (N=35)	32 (N=28)	29 (N=29)	20 (N=30)	7 (N=27)	28 (N=148)
2 to 5	58 (N=12)	39 (N=23)	39 (N=23)	35 (N=26)	19 (N=26)	35 (N=110)
> 5	63 (N=30)	74 (N=23)	55 (N=22)	52 (N=21)	41 (N=17)	58 (N=113)

basis of comparison is provided by the average monthly rent being paid by the respondents -- $443.

The number of refusals also varied, depending on whether or not other comparable rental housing was said to be available in the respondent's neighbourhood. Generally, the availability of such accommodation reduced the reluctance to move, implying that the loss that would be associated with an involuntary move would then be less onerous.

The proportion of respondents who said that they would not accept the compensation for moving was also found to vary with the length of time that they had lived in their home. These variations are given in Table 2. Although the various subsamples are fairly small, the general pattern of a greater reluctance to move with longer tenure is clearly evident in these figures. On average, for example, nearly twice as many people who had occupied their present home for five years or more, as compared to those who had lived in their present accommodation for less than two years, said that they would not want to move.

The results show that there would probably be wide variations in the required compensation among individual tenants, depending on particular circumstances. As the data suggest, these would include how long the tenant had lived in the premises and whether or not comparable rental accommodation was available in the same neighbourhood. Also, it seems probable that factors like the degree to which change is viewed as reasonable and equitable, or at least not completely unfair, would have an important influence on the magnitude of the loss.

Surprisingly, tests revealed that there was no consistent, statistically significant relationship between the amount of rent being paid by the respondents and their willingness to accept the various amounts of compensation for moving. There was also no clear relationship to household income (as reported by the respondents).

Other data collected in the survey revealed that a further factor may be important in such assessments. When respondents were asked if they would accept $1,000 to move, given that other accommodation was available in their neighbourhood but with no reason given for the request, 42 per cent said that they would refuse (see Table 1). Two other groups of respondents of about eighty individuals each were asked the same question, except that a reason for the move was provided. In both cases the proportions of respondents expressing a refusal were lower than among those to whom no reason was given. When the words "if your landlord wanted to convert the building to another use" were inserted into the question, the refusal rate was 30 per cent; when the words "if your landlord wanted your unit for a relative" were inserted, the rate was 36 per cent. Apparently, when people are provided with what many consider a legitimate reason for being required to move, they are somewhat less averse to giving up their home than they are when no reason is given. If this is generally true, and if reasonable grounds are in practice given for requiring moves, estimates of loss based on questions giving no reason are likely to overstate the amount of compensation demanded.

The present evidence should be taken only as approximations of the losses that may result if a tenant has to move involuntarily. The sample that was used to generate the data was relatively small, the critical questions were included among others, respondents may not have given as close attention to their answers to these specific questions

as they might have if the survey had been more specifically designed to provide estimates of this psychological loss, and no account was taken of any possible added loss that might be associated with a forced move. However, even with these reservations, the approach appears to be useful for indicating that tenants may experience a fairly substantial loss in welfare if they have to move involuntarily.

If the indications of losses given by respondents are even close to reasonable approximations, the losses that are addressed by regulations governing security of tenure may well be significant. The costs of such regulations are another matter, but the benefits, along with the costs and the observed preferences that favour sitting tenants, should be considered in judging the desirability of changes.

CONSIDERATIONS OF FAIRNESS

There are several reasons why it is important to know what the public considers fair in the domain of rental housing. The first and most obvious is that residential tenancies are heavily regulated and that the political and legislative process that produces regulations is certainly affected by the prevailing standards of fairness. Another reason to study public attitudes is to understand why the pressure to regulate tenancies is so strong.

The discrepancy between the popular view of rental housing and the approach of most professional economists is large and obvious. A large proportion of the public favours

strong restrictions on landlords, including rent controls, which are considered to be inefficient and self-defeating by almost all economists, regardless of their politics. As will be seen, the discrepancy cannot be explained away as a mere expression of vested interests. The analysis that is applied in this section traces it to two sources. The first is the public's concern with fairness, which sometimes conflicts with economists' concern with efficiency. In particular, the use of prices to allocate the available supply of a commodity is not always thought to be fair. The issue here for policy-makers is how far to go in accommodating the public's concern. Second, some people's attitudes appear to reflect a lack of, or an incorrect, understanding of the economics of housing. In particular, "naive accounting" tends to ignore opportunity costs, a mistake that tends to produce a bias against landlords.

This examination of public standards of fairness in rental housing was fitted into a project on which the first two authors of the present report have been working for some time. The principal aim of the project has been to better understand the lay view of the conduct of buyers and sellers in the marketplace -- including what that conduct should be and what it usually is. Telephone interviews with samples of Toronto residents have been the main source of data for this portion of the study, which has been concerned, in particular, with discovering what the respondents consider to be fair pricing practices and under what circumstances respondents feel it is acceptable, for example, for an

employer to reduce wages. Some conclusions of this work appear to be applicable as well to rental housing. Perhaps the most important conclusion is that people do not believe that prices and wages should be strictly determined by supply and demand, at least in continuing relations such as those between an employer and an employee. The fact that equally reliable labour is available at a lower cost is not considered an adequate reason for an employer to lower wages -- at least when the employer is making a profit. Wage cuts are considered fair and acceptable only when the employer is losing money. There is reason to expect that the public may hold similar opinions about another continuing relationship, that which often exists between landlord and tenant.

With regard to pricing policies, price changes are not, in general, considered to be the proper response to scarcity. For example, the list price of a car model is viewed as a maximum price that cannot be exceeded even when demand far exceeds available supply. People feel that in such cases shortages should be resolved in other ways -- mainly by queueing. The preference for queueing as a rationing process and the continuing nature of the landlord-tenant relationship may both contribute to the striking preference that is accorded (by government regulations as well as by community standards of fairness) to an existing tenant who wishes to renew a lease as against other potential renters of the same accommodation.

The next section presents the questions that were asked in the Toronto survey about issues of fairness in

residential tenancy and reports the answers. A subsequent section develops some of the conclusions that are supported by these results.

Survey Questions and Results

The survey questions that are pertinent to the topic of fairness in rental housing were organized in two sets, which explored respectively the conditions under which a landlord might be allowed to refuse to renew a lease and those under which a rent increase would be allowed. The respondents were asked at most one question from each set, and the two questions about rental housing were not consecutive questions in the questionnaire. For each question, the results indicate the proportion of respondents who gave a yes response. The results are reported separately for renters and owners as well as for the group as a whole.

The first set of questions dealt with various reasons for non-renewal of leases.

> Question I-1
> Suppose a landlord owns an apartment building that is fully occupied. The landlord and his or her family would like to move into one of the apartments. Should the landlord be able to refuse to renew a current tenant's lease in order to move into the building?
> YES: Renters 30% (N=57); Owners 48% (N=106); Total 42%

> Question I-2
> Suppose a landlord owns an apartment building that is fully occupied. One of the landlord's children is moving back to the city and needs a place to live. Should the landlord be able to refuse to renew a current tenant's lease in order to allow the relative to move in?
> YES: Renters 13% (N=79); Owners 29% (N=80); Total 21%

Suppose a landlord owns and rents out a single small house. One of the landlord's children is moving back to the city and needs a place to live. Should the landlord be able to refuse to renew a current tenant's lease in order to allow the relative to move in?
YES: Renters 41% (N=70); Owners 67% (N=78); Total 55%

Suppose a landlord has been renting out a suite in her or his own home. The suite is self-contained and has a separate entrance. One of the landlord's children is moving back to the city and needs a place to live. Should the landlord be able to refuse to renew the current tenant's lease in order to allow the relative to move in?
YES: Renters 49% (N=71); Owners 65% (N=860); Total 58%

Question I-3 and I-4
Suppose a landlord owns an apartment building that is fully occupied. One of the landlord's (nephews/good friends) is moving back to the city and needs a place to live. Should the landlord be able to refuse to renew a current tenant's lease in order to allow the (relative/friend) to move in?

3-Nephew
YES: Renters 15% (N=78); Owners 27% (N=88); Total 22%

4-Friend
YES: Renters 14% (N=80); Owners 17% (N-84); Total 15%

Question I-5
Suppose a landlord owns an apartment building that is fully occupied. The landlord would like to avoid one tenant's constant demands for building improvements. Should the landlord be able to refuse to renew a current tenant's lease in order to rent to a different tenant?
YES: Renters 21% (N=66); Owners 36% (N=90); Total 29%

Question I-6
Suppose a landlord owns an apartment building that is fully occupied. All tenants in the building have been adults but one couple has recently had a baby. Should the landlord be able to refuse to renew a current tenant's lease in order to maintain the adult nature of the building?
YES: Renters 32% (N=79); Owners 43% (N=80); Total 37%

Question I-7
Suppose a landlord owns an apartment building that is fully occupied. In one of the apartments another person moved in with the tenant who signed the lease. Now the original tenant has moved out. Should the landlord be able to refuse to continue the tenancy even if the new person is paying the rent?

YES: Renters 44% (N=77); Owners 49% (N=83); Total 47%

Suppose a landlord owns and rents out a single small house. Another person moved in with the tenant who signed the lease. Now the original tenant has moved out. Should the landlord be able to refuse to continue the tenancy even if the new person is paying the rent?
YES: Renters 38% (N=68); Owners 63% (N=70); Total 51%

Suppose a landlord has been renting out a suite in her or his own home. The suite is self-contained and has a separate entrance. Another person moved in with the tenant who signed the lease. Now the original tenant has moved out. Should the landlord be able to refuse to continue the tenancy even if the new person is paying the rent?
YES: Renters 59% (N=79); Owners 59% (N=66); Total 59%

Question I-8
Suppose a landlord owns an apartment building that is fully occupied. The landlord would like to convert the building to condominiums. Should the landlord be able to refuse to renew a current tenant's lease in order to convert the building to this use?
YES: Renters 42% (N=68); Owners 51% (N=79); Total 47%

The second set of questions dealt with various reasons for a rent increase.

Question II-1
A landlord owns a building with five apartments and charges $400 per month rent for each. Suppose the operating and maintenance costs increase substantially due to inflation. Do you think the landlord should pass on the increased costs by charging $50 per month more for each apartment?
YES: Renters 46% (N=69); Owners 60% (N=86); Total 54%

Question II-2
A landlord owns a building with five apartments and charges $400 per month rent for each. Suppose the current mortgage on the building expires and the landlord is forced to renew at a substantially higher rate of interest. Do you think the landlord should pass on the increased cost by charging $50 per month more for each apartment?
YES: Renters 49% (N=79); Owners 56% (N=79); Total 53%

A landlord owns and rents out a single small house and charges a rental of $400 per month. Suppose the current mortgage on the house expires and the landlord is forced to renew at a substantially higher rate of

interest. Do you think the landlord should pass on the increased cost by charging $50 per month more for the house?
YES: Renters 55% (N=69); Owners 78% (N=85); Total 68%

A landlord has a self-contained suite with a separate entrance in her or his own home and rents it out for $400 per month. Suppose the current mortgage on the house expires and the landlord is forced to renew at a substantially higher rate of interest. Do you think the landlord should pass on a proportionate share of the increased cost by charging $50 per month more for the suite?
YES: Renters 57% (N=69); Owners 61% (N=79); Total 59%

Question II-3
A landlord owns a building with five apartments and charges $400 per month rent for each. Suppose the operating and maintenance costs increase substantially due to inflation. If the landlord cannot raise current rents because of legal restrictions, do you think the landlord should temporarily be able to cut back on services?
YES: Renters 25% (N=56); Owners 37% (N=102); Total 33%

Question II-4
A landlord owns a building with five apartments and charges $400 per month rent for each. Suppose the rents are controlled and the permitted yearly increase for these apartments is $50 per month to reflect general cost increases of rental units in the area. If a tenant can show that the landlord's costs have increased by less than that amount, should the $50 increase be reduced accordingly?
YES: Renters 90% (N=80); Owners 74% (N=85); Total 82%

Question II-5
A landlord owns a building with five apartments and charges $400 per month rent for each. Suppose that the landlord has added a new wing to the building and now has five new rental units that are identical to the original ones. Do you think the landlord should charge $50 per month more rent for the new apartments to reflect higher present building costs?
YES: Renters 46% (N=79); Owners 65% (N=82); Total 55%

Question II-6
A landlord owns a building with five apartments and charges $400 per month rent for each. Suppose the rent on all five apartments was increased three months ago and would normally not be raised again for another nine months. Now one of the tenants has moved. Do you think the landlord should charge a new tenant $50 more per month if a tenant is willing to pay it?
YES: Renters 24% (N=80); Owners 41% (N=79); Total 32%

Question II-7
A landlord owns a building with five apartments and charges $400 per month rent for each. Suppose the current leases are due for renewal and costs to the landlord have increased substantially over the past year. Several of the present tenants would be forced to move if the rents were increased. Do you think the landlord should pass on the increased costs by charging $50 per month more for each apartment even if this means that people would have to move?
YES: Renters 54% (N=76); Owners 64% (N=78); Total 59%

Question II-8
A landlord owns a building with five apartments and charges $400 per month rent for each. Suppose the opening of a new factory in the area causes more people to move in, substantially increasing the demand for housing. Do you think the landlord should pass on general rent increases that have resulted from the shortage by charging $50 per month more for each apartment?
YES: Renters 15% (N=67); Owners 32% (N=89); Total 24%

Question II-9
A landlord owns and rents out a single small house and charges a rental of $400 per month. Suppose the opening of a new factory in the area causes more people to move in, substantially increasing the demand for housing. Do you think the landlord should pass on general rent increases that have resulted from the shortage by charging $50 per month more for the house?
YES: Renters 28% (N=83); Owners 46% (N=67); Total 36%

Question II-10
A landlord has a self-contained suite with a separate entrance in her or his own home and rents it out for $400 per month. Suppose the opening of a new factory in the area causes more people to move in, substantially increasing the demand for housing. Do you think the landlord should pass on general rent increases that have resulted from the shortage by charging $50 per month more for the suite?
YES: Renters 21% (N=78); Owners 41% (N=70); Total 30%

Interpretation of Survey Results

The most obvious finding is that the respondents generally oppose granting landlords the power to refuse to renew a lease and are very selective about the situations under which a landlord should be able to raise rents. It is

notable that these norms of fairness are not supported only by self-interested renters. Although there is a consistent difference in the percentages of positive responses by renters and by home-owners, the similarity of responses is surely more impressive than the difference. An obvious topic for further study would be landlords' standards of fairness. A question of particular interest is whether or not landlords share the standards expressed by the respondents, including the belief in some preferential treatment of sitting tenants.

The norms of fairness that govern preferences for landlords' behaviour do not appear to be norms of charity, which would presumably be controlled by considerations of the renter's need. A striking finding of the survey is that the respondents' support for a landlord's right to cause hardship is strongest in the case to which charity might be most appropriate -- where an increase of rent would be beyond the tenants' means (Question II-7). The norms that people apply appear to be impersonal rules that are based on the rights and obligations of responsible economic agents, rather than on a sentimental response to individual pain or discomfort. According to the general norm, tenants have the responsiblity of choosing accommodations that are within their means and landlords are not expected to protect them from the consequences of their mistakes. A tenant's responsibility probably extends to the prudent avoidance of foreseeable risks, including the risk of legitimate increases in rent. In the same spirit, most people would

probably view it as imprudent for anyone to borrow money at a variable rate of interest without a substantial margin of safety.

An issue that might be probed in future research is the rules of fairness that people would apply when a tenant is hit by unexpected misfortune, such as a layoff. At the moment one can only speculate that landlords would be expected to show considerable, but not indefinite, patience in such cases.

The results of the first set of questions suggest that community standards grant the tenant a right to almost indefinite tenancy. A rental agreement is perceived as an open-ended arrangement rather than as a time-limited one at the end of which the landlord is free to dispose of the property as she or he wishes. At least in the case of an apartment house, the landlord is not even permitted to terminate a lease in order to allow her or his own child to occupy the premises (Question I-2). The answers to the same question for a single small house or for a suite in the landlord's home suggest that the perceived balance of the rights of landlord and tenant may be significantly different when the landlord lets a single dwelling. The different answers that people give in the two cases could also reflect another consideration of fairness: the arbitrary singling out of one of several tenants for non-renewal appears inequitable.

Even landlords who own fully occupied apartment buildings have rights. For example, only a small majority

of respondents would deny a landlord the right to reject a replacement selected by a former tenant (Question I-7). Thus, the right of the renter to indefinite tenancy does not imply a transfer of control over the property from the landlord to the tenant. The rights that the tenant has acquired cannot be passed on at will to another person. This result is of particular interest because it suggests that the renter's hardship is not necessarily the dominant consideration. The hardship is presumably the same for the original tenant and for the friend, but the original tenant had a right that the friend is not granted.

The other salient case in which almost half the respondents allow the landlord to refuse to renew a lease is when the landlord intends to change the function of the dwelling. There appears to be almost universal agreement that the sitting tenant has priority over other would-be tenants at the end of the lease, but there is also substantial agreement that overall control should remain with the landlord -- including the right to change the function of the dwelling.

The belief that a landlord should be able to change his or her relationship with the tenants in the context of a major business move may be fairly general. For example, the results of earlier surveys showed that norms of fairness severely restrict the right of an employer to lower employees' wages when their task does not change. It is a likely hypothesis, however, that the standards of fairness would allow the employer to vary the tasks that employees

are required to perform, with corresponding adjustments of wages -- especially when business is poor.

The surveys of people's expectations and judgements about behaviour in the marketplace have revealed a striking contrast between the lay view and the elementary assumptions of economic analysis. It is a basic tenet of the economic approach that prices are (and should be) determined by supply and demand. Indeed, some economics textbooks explicitly ridicule the notion of a direct relationship between prices and costs. And students of economics are warned against the idea that prices should reflect short-run costs, precisely because of the central role of this idea in the naive view of how things work and of how they should work in the marketplace. In the economist's analysis, for example, it is efficient for scarcity of rental housing to be the main determinant of rental prices. But most lay people do not fully accept the role of supply and demand, especially in a continuing relationship such as exists between an employer and an employee or between a landlord and a tenant who wishes to renew a lease.

In Question II-8, 75 per cent of the respondents (and 85 per cent of renters) held that increased demand for housing is not a legitimate reason for raising rents of existing tenants in multi-unit apartment buildings. While there was some greater sympathy in the case of single units, the pattern was still the same. The answers to the other questions show little enthusiasm for any rent increases, but such support as exists is strictly related to the landlord's

actual short-run costs. Indeed, the strongest rejection of the landlord's right to raise rents is found where tenants can document that the projected increase in rent exceeds the increase in the landlord's actual costs (Question II-4). On the other hand, the opposition to rent increases is weakest in the case of a new building for which the costs of construction have been high (Question II-5). Respondents are apparently willing to tolerate the idea of the landlord charging different rents for two identical dwellings built at different times, to reflect the differences in their cost. It is hard to imagine a more extreme violation of elementary economic wisdom.

In summary, the present survey suggests that the public considers it fair for a landlord to raise rents or to refuse to renew a lease under the following conditions: (1) in the context of a business move that changes the basic terms of the initial implicit agreement; (2) to reflect increases in direct current costs; (3) to share losses that the landlord is incurring or to prevent such losses. Results of earlier surveys indicate that similar rules apply to other economic relations, for example, between an employer and employees or between a supplier and clients. The indications are that respondents view the breach of rules of fairness as an occasion for legitimate anger and possible retaliation -- and that they may therefore look with favour upon legislation and regulations that control conduct and punish transgressions.

Naive Accounting and the Rules of Fairness

The attempt to understand the prevailing standards of fairness in economic transactions necessarily uses some accounting notions, such as profits and costs, gains and losses. It is therefore important to note that the lay meaning and the professional meaning of these notions are sometimes strikingly different.

The notion of opportunity cost is basic to economic thinking, in which such notional costs are not distinguished from out-of-pocket costs. For the economist, a vacant apartment represents a cost to the landlord because the capital that is tied up in this asset could be earning at least as much as the basic lending rate if used otherwise. The lay view appears to be quite different, generally ignoring opportunity costs (Thaler, 1980). In the context of rental housing, a plausible hypothesis is that people adopt a narrow definition of the landlord's costs. This definition could include maintenance and taxes, the interest payments on a prudent mortgage, and a reasonable allowance for the depreciation of the asset -- but no more. The neutral reference level is one in which these costs are covered, with no special regard for the notion of an expected return on capital investment; the bank rate is only relevant, in this view, if there is an outstanding mortgage.

The relevance of scarcity to the determination of a fair price is much easier to grasp with a notion of opportunity cost than without such a notion. To let an

asset to one tenant for $400 when another would pay $500 for it is, in the economic analysis, undistinguishable from a direct payment or gift of $100 from the landlord to the original tenant. Any failure to take advantage of an economic opportunity creates, by definition, an opportunity cost -- and opportunity costs are real.

A different intuitive conception of gains and losses is employed in many people's reasoning about economic matters, in their judgements of fairness and in their personal decision-making as well. Opportunity costs are recognized in this conception only in the form of explicit regret for a specific alternative that one had almost chosen. Most costs are direct, and any revenue in excess of these costs is a profit, which is considered as a gain.

The implication of the naive mode of accounting is that landlords are seen to make a profit, even when their return on invested capital is virtually nil, so long as revenues cover direct costs. This definition of costs and profits is carried into the lay standards of fairness. Thus, it is considered unfair for one person to impose a loss on another, except when the first person is trying to avoid or reduce a loss of his or her own. On the other hand, it is generally not fair for one person to impose a loss on another merely to increase a profit (gain) that is already positive. More precisely, the imposition of a loss can only be justified by the expectation that the gain to the agent is disproportionately larger than the cost that he or she imposes. It is rarely fair for a person who is already

gaining to increase those gains simply by reducing the gains or increasing the losses of others, especially if they are thought to be less powerful -- as in the case of the landlord-tenant relationship. However, losses may be imposed in order for a disproportionate gain to be made elsewhere. Such disproprotionate gains are expected to arise from major business moves, for example, when a landlord transforms a rental building into a condominium. Because it emphasizes direct costs and neglects opportunity costs, the naive mode of accounting is strongly biased against landlords in their dealings with tenants.

A careful analysis of naive accounting and of standards of fairness of the kind that has only been sketched here, could explain the large discrepancy between the popular view of rental housing and the approach of professional economists. Such an analysis could perhaps also point to ways of closing the gap by identifying issues in which untutored opinions should be ignored, issues that should be addressed in information campaigns, domains in which standards of fairness must be expressed in regulation, and situations where the task is to minimize the economic costs of such regulation.

RESPONSE OF REGULATIONS AND RULES

Many of the rules governing landlord and tenant relations have no doubt been introduced either to counter perceived failures in market incentives and restraints or as a

response to judgements that some existing practices were unfair. For that reason it may be of some interest to compare the evidence offered in previous sections of this report with some existing provincial regulations governing the relationship between landlords and tenants.

It should be kept in mind, however, that there are obvious limitations to the data. For example, people who replied in one way to questions about landlords who are renting out five units, a single small house, or a suite in their own home might respond quite differently to questions about a landlord who owns and rents out a large apartment block. Furthermore, respondents might reply differently if they were asked whether a landlord should have to continue or refuse to continue a tenancy under certain circumstances, rather than whether they should be able to. To ask whether a landlord should pass along increased costs is also quite different from asking whether the landlord should or should not be able, under law, to raise rents to cover the increases. The responses might also be different. Nevertheless, in spite of these constraints, the information supplied by the survey responses may be of some help in estimating public support for various current restrictions.

Security of Tenure

In the important matter of security of tenure, tenants clearly foresee a large loss in welfare if they are forced to move from their present homes. Most of the renters interviewed in the Toronto area responded that they would

have to be compensated by substantial payments before they would agree to a move and still feel that they were as well off as they are in their current position. This may be seen as some evidence that such losses are important. Restrictions that assure some security of residential tenure would prevent such losses, although the degree to which the limitations are justified remains open. It is also clear from the survey results that both home-owners, who presumably have no special interest to protect, and renters, who do, support such restrictions. Tables 3 and 4 summarize the answers to various questions concerning security of tenure.

Some reasons for failing to renew a lease apparently are more acceptable than others, and the loss in those cases may therefore be less onerous.

Questions I-1 to I-4

As Table 3 indicates, the survey found only modest support for the refusal by a landlord with a fully occupied apartment building to renew a lease in order that the landlord and her or his family could reside in the premises. There was even less support for refusing a renewal in order to accommodate the landlord's child, nephew, or friend.

The legislative response on this issue has been as follows:[3] of the provinces that limit the reasons for which

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3. The references are to the acts listed at the end of this paper. When more than one act is listed for a particular province or territory, the act in question is referred to by its initials.

TABLE 3

Percentage of Respondents Agreeing that a Landlord with a Fully Occupied Apartment Building Should be Able to Refuse to Renew a Current Tenant's Lease

Question	Reason	Renters	Home-owners	Total
I-1	Landlord's family moves in	30	48	42
I-2	Landlord's child moves in	13	29	21
I-3	Landlord's nephew moves in	15	27	22
I-4	Landlord's friend moves in	14	17	15
I-5	Rid of complainer	21	36	29
I-6	Baby in adult building	32	43	37
I-7	Tenant replaced by friend[a]	44	49	47
I-8	Convert to condominium	42	51	47

[a] In this case the landlord's refusal to renew the lease applies to the tenant's friend, not to the original tenant. See Question I-7.

TABLE 4

Percentage of Respondents Agreeing that Landlords Should be Able to Refuse to Renew a Current Tenant's Lease: Multiple Units Compared to Single Units

Reason	Renters	Owners	Total
Child moves in			
Multiple units	13	29	21
Single small house	41	67	55
Single suite in own home	49	65	58
Tenant replaced by friend			
Multiple units	44	49	47
Single small house	38	63	51
Single suite in own home	59	59	59

tenancies can be terminated, British Columbia (subsection 29(3)), Manitoba (LTA, subsection 103(4)), Ontario (LTA, subsection 105), Quebec (CC, Article 1659), and to a lesser

degree, Nova Scotia (RTA, subsection 7(4)) permit landlords to terminate or refuse to renew a tenant's lease if they themselves or members of their family want to occupy the premises. (The definition of "family" appears to be fairly consistent with British Columbia (subsection 29(3)), Manitoba (LTA, subsection 103(4)) and Ontario (LTA, subsection 105), for example, all including the landlord's spouse, children, parents, and parents-in-law.) However, Manitoba, Ontario, and Nova Scotia place some restrictions on the termination.

In Manitoba, landlords and tenants must negotiate the termination and the settlement may include payment of compensation to the tenant of up to $250 (LTA, subsections 103(4.2), (4.3), and (4.4)). That province also prohibits eviction for this reason of tenants with school age children during the school year (LTA, subsections 113(4) and (5)).

In Ontario, regulations that allow landlords to terminate a tenancy in order that they or their family may occupy the premises may be enforced only if the building contains not more than six dwelling units or if the landlord or her or his family has previously occupied the premises (LTA, subsection 110(4)). Further, the tenancy may only be terminated to allow the occupancy at the end of the term (LTA, section 105).

Nova Scotia requires a judge's order before tenants who have lived in residential premises for five consecutive years or more can be given "notice to quit" in order to allow landlords to acquire possession of a unit for their

or their family's use as a residence (RTA, subsection 7(4)). This recognition of length of tenure as a factor that may influence the loss borne by sitting tenants is consistent with the responses of renters, whose refusals to accept compensation to move increased with the number of years of occupancy (see Table 2).

These restrictions on the termination of tenancies are no doubt intended to help reduce the likelihood of costs being imposed on renters who are forced to move when a landlord or a landlord's family wishes to occupy premises currently let to a tenant.

When asked whether a landlord with a fully occupied apartment building should be able to refuse to renew a current tenant's lease to enable the landlord and her or his family to move in, only 42 per cent said yes. That degree of support decreased to 21 per cent (13 per cent of renters and 29 per cent of home-owners) when respondents were asked whether a landlord should be able to refuse to renew a current tenant's lease to enable, not the landlord, but the landlord's child to move in.

There was, however, more support for non-renewal under these circumstances when the landlord rented out only one small house or a single suite in her or his own home; 55 per cent and 58 per cent of the respondents agreed that a landlord who rented out a single small house or an in-home suite, respectively, should be able to refuse to renew a current tenant's lease to enable her or his child to move in.

None of the provinces that specifically permit landlords to refuse to renew leases to enable the landlord or members of the landlord's family to move in extend the definition of "family" to include so distant a relative as a nephew. Yet, somewhat surprisingly, people seem no more and no less reluctant to allow landlords to refuse renewals for nephews than for a closer relation -- the landlord's own child. Unfortunately, this question was posed using only the case of landlords renting out units in an apartment building; far different results might have been obtained, as they were in the case of the landlord's child, if the respondents had been asked whether they would support non-renewal if the landlord rented out only a single unit or a suite in her or his own home.

Even fewer respondents, a mere 15 per cent, agreed that a landlord with a fully occupied apartment building should be able to refuse to renew a lease in order to allow a friend to move in. This lack of popular support is consistent with current regulations, for, as with the case of more distant relatives, legislative restrictions in Canadian jurisdictions have not been extended to include landlords' friends.

Questions I-5 and I-6

The respondents were least likely to agree with a landlord's refusal to renew a lease when the reason was to enable a landlord's friend or relative to move in, but they were also reluctant to agree that landlords should be able to refuse

to renew a lease to get rid of a tenant who constantly demanded improvements or a tenant in an "adults only" building who had a baby. Of those surveyed, only 29 per cent said landlords should be able to refuse to renew a lease for the former reason, while slightly more (37 per cent) agreed that landlords should be able to refuse to renew a lease under the latter circumstances.

The responses to Questions I-5 and I-6 were somewhat consistent with existing legislation. Of the provinces that have prescribed conditions under which landlords may refuse to renew leases, neither of these circumstances is included among those "acceptable" conditions. However, in some of those provinces, landlords still retain the right to terminate tenancies for "reasonable cause" or a "legitimate reason" or for "substantial breach" of the tenancy agreement. (See, for example, British Columbia's Residential Tenancy Act, subsection 31(1).) Thus, under certain circumstances the conditions described in these two questions might be sufficient to allow the landlord to terminate the tenancy.

Question I-7

The next question in this series asked respondents whether landlords should be able to refuse to continue a tenancy if the person who held the original lease had moved out and a friend of the original tenant had moved in and was paying the rent. Together with conversion of the use of the building, this reason for a landlord's refusal to continue a

tenancy was accepted by more respondents than any other presented in the survey.

Unfortunately, the wording of this question presents some problems in assessing the consistency of the responses with existing legislation. If the question refers to the assigning or subletting of the premises, the tenant would be in violation of provincial legislation, which, in every province except Alberta, specifically permits tenants to sublet, but which also requires the landlord's permission for the subletting. (See, for example, clause 27(1)(k) of British Columbia's Residential Tenancy Act.) In the Yukon Territory (subsection 70(3)), Saskatchewan (section 20, Stat. Cond. 8(2)), Manitoba (LTA, subsection 93(3)), Ontario (LTA, subsection 91(3)), New Brunswick (RTA, subsection 13(3), and Prince Edward Island (LTA, subsection 92(2)), the landlord's permission for the subletting may only be required if this is provided for in the lease. In Alberta, the question of subletting is left to the landlord and tenant to decide.

But whether or not subletting is intended, a landlord might not be able to refuse to continue the tenancy solely for this reason if she or he had accepted rent payments. Acceptance of the payments might well be seen as evidence that the landlord had agreed to the tenancy, and once the landlord had agreed by accepting the rent payments, the same rules that apply to renewal of tenancies in other circumstances would also apply here.

Question I-8

In most of the provinces, including British Columbia, (clause 29(4)(b)) and Ontario (LTA, section 107), which limit the reasons for which tenancies may be terminated, landlords may obtain possession of rental premises in order to convert them to condominiums. The survey responses were consistent with this policy. Together with the previous one, this reason for refusing to renew leases elicited the highest level of support from the survey respondents. When asked whether a landlord should be able to refuse to renew a current tenant's lease in order to convert the premises to a condominium, 47 per cent of them said yes. The fact, however, that the total responses were so evenly split on this question could suggest that some more modest legislative restrictions, such as Ontario's longer than usual notice period for conversion to condominiums, might have some support. (Ontario requires landlords who want to convert rental premises to condominiums to give their tenants 120, instead of the usual sixty, days' notice to vacate (LTA, section 107).)

Rent Increases

Rent increases are often a contentious issue, in part, it appears, because some reasons for increases are more acceptable than others. The variation in responses to different reasons for rent increases found in the survey is summarized in Tables 5 and 6.

TABLE 5

Percentage of Respondents Agreeing that Landlords of Five Rental Units Should be Able to Raise Rents

Question	Reason	Renters	Home-owners	Total
II.1	Costs increase	46	60	54
II.2	Mortgage rate increases	49	56	53
II.3	Controls, lower service	25	37	33
II.4	Tenant shows lower costs	10	26	18
II.5	New with higher building costs	46	65	55
II.6	New tenant	24	41	32
II.7	Costs increase (tenant must move)	54	64	59
II.8	Increased housing demand	15	32	25

TABLE 6

Percentage of Respondents Agreeing that Landlords Should be Able to Raise Rents: Multiple-Unit Compared to Single Unit Responses

Reason	Renters	Owners	Total
	Landlord should raise rent by $50/month		
Increase in mortgage rate			
Multiple units	49	56	53
Single small house	55	78	68
Single suite in own home	57	61	59
Increased demand for housing			
Multiple units	15	32	24
Single small house	28	46	36
Single suite in own home	21	41	30

Again, as they have with termination of tenancies, some provinces have responded to the public's concern about rent increases by restricting the amount of the increase, its frequency and, in some cases, the reasons for which rents

can be raised. For example, in all Canadian jurisdictions except Alberta, the Yukon Territory, the Northwest Territories, and, under certain circumstances, Newfoundland (clause 20(7)(d)), landlords are allowed to increase rents only once a year. The Yukon Territory does, however, stipulate that there can be no increase in the first year or first term of a tenancy (subsection 77(1)). In British Columbia, rents may only be increased once a year or when there is a change of tenant (section 18). Manitoba and New Brunswick allow some exceptions to the once-a-year limit on rent increases. In some cases (see next question), Manitoba landlords may increase rents for new tenants (RRRA, subsection 16(2)), and New Brunswick landlords may be allowed more frequent increases in cases of "extraordinary hardship" (RRRA, subsection 16(1), (6), (7), and (8)).

Question II-6

In British Columbia the frequency of rent increases is limited to once a year or on change of tenant (section 18). Manitoba may allow increases for new tenants if the previous tenant vacated the premises voluntarily and there are no more than three separate residential premises in the building (RRRA, subsection 16(2)). If there are four or more, landlords may increase rents for new tenants if they have the Rent Regulation Bureau's approval and if the previous tenant's rent was below the average rent paid for similar premises in the building (RRRA, subsections 16 (4) and (6)).

When survey respondents were asked whether they thought landlords who rented out five units should raise rents for new tenants if the controls normally limited the number of increases to one a year, 68 per cent said no. Only two other reasons presented in the survey for rent increases received less support than this one.

Question II-8

One of the most striking results of the survey is the strong rejection, by both owners and tenants, of increases in rent when a new development, such as the opening of a new factory, causes an increased demand for housing. Only 15 per cent of renters and 32 per cent of home-owners thought that landlords with five rental units should raise rents because of an increase in relative scarcity. Landlords who let a small house or a suite in their own home received only slightly more support for increasing rents for this reason.

Provincial practices reflect the opinion revealed in this question: of the provinces with rent controls or review only Ontario, and perhaps also Saskatchewan (subsection 80(2)), allow "comparable rents" as a factor affecting increases (Ontario Commission, 1983, Appendix A).

Question II-4

Respondents demonstrated the lowest support for permitting landlords to raise rents to the maximum allowed under controls if a tenant could show that the landlord's costs had not increased by that much.

Where landlords' costs are at issue, those provinces with rent control or review usually allow tenants to apply for a review of, or to dispute, any increase they believe to be unfair. (This does not, of course, apply to units that are exempt from the legislation.) In Saskatchewan (section 78) and Manitoba (RRRA, subsection 20(1)), and perhaps other provinces as well, tenants can request a review even if the proposed increase is less than the prescribed amount -- currently 5 per cent in Saskatchewan and 6 per cent in Manitoba.

In reviewing an increase at the tenant's request, Ontario's Residential Tenancy Commission is not obliged to consider the landlord's costs (RTA, subsection 132(1)).

In Saskatchewan, a Residential Tenancies Rent Review Board may, at a tenant's request, decide whether a proposed rent increase is "fair and reasonable". In reaching that decision, the Board "shall consider" a number of factors, including the amount of the increase, the landlord's costs, and the amount of rent being received by landlords of similar residential premises (subsection 80(2)). Presumably, then, even if a Saskatchewan tenant could show that her or his landlord's cost increases were less than the proposed amount of the rent increase, the increase might still be allowed if the rent was less than was being charged for similar residential premises.

Questions II-1, II-2 and II-7

Other questions that tied rent increases to landlords' costs asked the respondents to suppose that certain costs had increased and then to say whether they thought the landlord should pass on the increases by raising the rent. The responses were about evenly divided when the questions were posed this way, although more people supported a rent increase for increased mortgage costs if the landlord rented out only one small house or a single suite in her or his own home.

The responses varied only slightly when the respondents were asked if landlords with five fully occupied rental units should pass along increased costs even if this would mean that tenants would be forced to move. Surprisingly, slightly more people thought landlords should increase the rent under those circumstances. Again, this suggests that notions of what kinds of costs can reasonably be passed on may be more important in judging fairness than charity to people less able to pay.

Insofar as rent increases are subject to control or review, the provinces agree that landlords should be able to pass along some, but not all, cost increases. All of the provinces with rent controls or review allow landlords to pass along higher operating costs; however, only half of them -- Prince Edward Island, Manitoba, Ontario, and New Brunswick (which allows undefined "legitimate" costs) -- include maintenance costs as a factor affecting increases

(Ontario Commission, 1983, Appendix A). The provinces are also split on the question of passing on increases in mortgage costs: Newfoundland, Prince Edward Island, Manitoba, and Quebec do not include mortgage interest as a factor affecting increases; Manitoba includes "other finance costs"; and Ontario and Nova Scotia include mortgage costs, but "to a maximum" (Ontario Commission, 1983, Appendix A).

That a tenant would be forced to move if a landlord raised the rent to cover increased costs did appear to have an effect on the survey responses -- albeit the opposite one from what might be expected. The issues of whether a tenant would have to move is not mentioned by the provincial landlord-tenant laws as a condition to be considered in allowing or not allowing rent increases.

Question II-3

A further question asked whether a landlord should temporarily be able to cut back on services if her or his operating and maintenance costs increased substantially and the rent could not be raised because of legal restrictions. The legislative response to this situation is as follows: in a number of provinces if a landlord is prohibited from increasing rent payments, she or he may also be prohibited from cutting services since that would amount to the same thing. (See, for example, British Columbia's Residential Tenancy Act, section 20 and Manitoba's Residential Rent Regulation Act, subsection 30(1).) This is consistent with a two-thirds majority of the views expressed by the

respondents: cutting services when rent could not be increased received among the lowest levels of respondents' support.

Question II-5

A final question asked whether landlords who had added a new wing to an existing building should charge more for the new units than the old ones. The units in both wings were described as identical, but building costs were higher for the new units. People responded to this proposal in almost exactly the same way they responded to other proposals to increase rents because of higher costs -- that is, almost half of the respondents, (45 per cent), felt the landlord should not charge more for the new units.

On this last question the legislation is mixed. While every province except Newfoundland and Prince Edward Island exempts new construction from rent controls or review, most of them (Nova Scotia is an exception) do not exempt the initial rents on new buildings (Ontario Commission, 1983, Appendix A).

New Brunswick, and possibly other provinces as well, have anticipated the situation described in this question by exempting new residential premises from rent controls unless they are part of a building where other units are already rented (RRRA, subsection 5(1)). Once again, however, initial rents are not exempt (Ontario Commission, 1983, Appendix A).

CONCLUSIONS

The evidence presented here suggests some support for a number of assertions, and less for others. It seems clear that if tenants are required to vacate their premises, many will bear fairly substantial welfare losses. Measured in terms of the minimum compensation they might require to accept such losses, the indicated sums seem worthy of further attention. These losses also seem to be generally larger for tenants who have lived in their homes for a longer time.

It is also apparent that large numbers of people have strong opinions as to what reasons for changes, such as rent increases or non-renewal of leases, are acceptable and which therefore should or should not be restricted. Most of these patterns are the same both among tenants, who would be expected to have a greater self-interest in such rules, and among owners of their own homes, who presumably do not. Many of the preferences are not necessarily consistent with a narrower view of economic efficiency.

Sitting tenants are greatly favoured over prospective tenants, and there is wide support for the security of the tenure of current renters. Price is not necessarily a preferred rationing mechanism in such cases.

What are seen to be justified reasons for raising rents also vary widely. Increases in visible costs can be passed on with far greater approval than less obvious opportunity costs. And, surprisingly, an increase in relative scarcity

is seen as a far less acceptable justification for raising rents.

It also appears that at least some legislation corresponds in general to the way in which most respondents balance their concern for the efficient provision of housing with their worries about the fairness of landlord-tenant relations. To the extent that much of the appeal of some restrictions on rent increases and security of tenure is based on a naive accounting of gains and losses and a lack of appreciation of all of the resulting costs, and perhaps in part a discounting of what are felt to be very uncertain future consequences, not all restrictions may be completely desirable. But to the extent that fairness might be ignored in other forms or levels of regulation, most people -- tenants and non-tenants alike -- would probably find such alternatives to be less appealing.

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